Saskatchewan Financial
Services Commission
Pensions Division

UNDERSTANDING THE

PENSION BENEFITS ACT, 1992

A GUIDE FOR

MEMBERS

Table of Contents

Page

Introduction

An employer is not required to establish a pension plan for its employees, but once it does so, the employer is required to comply with federal tax law and applicable provincial pension legislation. Pension plan members who work in Saskatchewan are covered by *The Pension Benefits Act, 1992*, unless they work in federally regulated industries, such as banking or transportation. Employees in these industries are subject to federal pension legislation that is administered by the Office of the Superintendent of Financial Institutions in Ottawa. In addition, certain employees who work for the federal government and the Government of Saskatchewan also are not covered by the legislation.

The Pension Benefits Act, 1992 came into force in Saskatchewan on January 1, 1993, although several provisions in the new legislation were effective from January 1, 1994. The Act replaced *The Pension Benefits Act*. This is relevant if you were a member of a pension plan prior to January 1, 1993, because different legislation will apply before and after that date and this may affect your pension entitlements.

Employer sponsored plans can vary greatly in the benefits offered to employees. Some pension plans are more generous than the minimum standards required by Saskatchewan's pension legislation. This booklet is an attempt to describe the principles and terms that are common to all plans so that members can gain a better understanding of how pension plans operate. It should not be taken as a guide to the entitlements offered by a particular pension plan. Plan members are encouraged to consult their plan administrator for details relating to your plan. You also are encouraged to consult other knowledgeable sources for more complete information on financial planning for retirement.

In a publication of this sort, it is difficult to avoid technical terms entirely. For your reference, a glossary appears at the end.

Objectives of *The Pension Benefits Act, 1992*

The objectives of *The Pension Benefits Act, 1992* are:

- to safeguard accrued pensions from undue loss
- to ensure the equitable treatment of plan members.

Notwithstanding our efforts to safeguard accrued pensions, pensions are not guaranteed. If the employer funding a plan is insolvent and the plan has insufficient assets to pay benefits, the only recourse is to reduce benefits.

"Equitable treatment" refers to a reasonable expectation that the pensions accruing to plan members will not be lost due to death, disability, termination of employment or retirement. For instance, vesting rules ensure that most plan members that terminate employment receive a pension. Ensuring equitable treatment should not be confused with being an advocate for employees or bargaining on their behalf. The nature and generosity of a pension plan are established by an employer or by collective bargaining.

About the Pensions Division

The Pensions Division of the Saskatchewan Financial Services Commission is responsible for administering *The Pension Benefits Act, 1992* of Saskatchewan. The Division ensures that plan administrators comply with the Act's provisions. The Pensions Division:

- registers new pension plans and pension plan amendments
- reviews required filings by plan administrators
- monitors the financial status of pension plans
- investigates alleged breaches of the *PBA* and its regulations, and takes enforcement action when required
- responds to enquiries and complaints from pension plan members

For more information about our services call (306) 787-7650 or visit our web site at www.sfsc.gov.sk.ca

Canadian Association of Pension Supervisory Authorities (CAPSA)

CAPSA is an association of pension regulators from nine provinces and the federal government. CAPSA's mission is to promote an efficient and effective pension regulatory system in Canada. It strives to be a leader in the development and harmonization of pension policy and the setting of pension standards.

For more information visit CAPSA's web site at www.capsa-acor.org.

Information on the Old Age Security Program and the Canada Pension Plan

Old Age Security Program (OAS)

The OAS is a monthly pension that is paid to people who are 65 years of age and older and meet the residency and maximum income requirements. The Government of Canada also provides the Guaranteed Income Supplement (GIS), which is a family-income tested benefit that goes to low-income OAS pensioners. Spouse's Allowance benefits are also available to low-income 60 to 64 year olds who are married to GIS recipients or have been widowed.

Canada Pension Plan (CPP)

The CPP provides you or your dependents with some financial protection if you become disabled or die, or when you retire. The amount of your CPP benefits depends on how much and for how long you contribute. The federal and provincial governments jointly manage the CPP. The CPP operates in every province and territory except Quebec, which has a similar pension plan, the Quebec Pension Plan.

For questions about OAS and CPP

Visit Income Security Programs of the Human Resources and Social Development Canada (HRSDC) website at http://www.sdc.gc.ca or call the HRSDC at:

1-800-277-9914 (English)
1-800-277-9915 (French)
1-800-255-4786 (TTY/ATS)

Types of Pension Plans

Pension plans can vary greatly in terms of their structure and the benefits they provide. The two most common types of pension plans are the defined benefit plan and the defined contribution (or money purchase) plan. Some employers offer a combination of the two types of plans - known as "hybrid" or “combination” plans.

Defined Benefit Pension Plans

Defined benefit plans are designed to provide you with a specified amount of pension benefit when you retire based on a formula. Generally, this formula depends on factors like years of service and earnings and is described in the pension plan documents provided to members. Members of this type of plan are advised annually of the amount of pension benefit they have earned or "accrued" up to that point.

There are three types of benefit formulae commonly used to determine a member's pension:

- final or best average earnings formula:

  For each year of service, the formula provides a fixed percentage of your final earnings from employment or of an average of your earnings over a fixed period of time. In other words your pension adjusts in step with your wages. For example:

  1.6% of your average earnings over the best 5 years of earnings x your total years of service

- career average earnings formula:

  Your annual pension benefit is a fixed percentage of your annual earnings while a member of the plan. For example:

  1.2% of your annual earnings

- flat benefit formula:

  Your annual pension benefit is a fixed dollar amount per year of service. For example:

  $32 per month per year of service

Defined Contribution Pension Plans

In a defined contribution or money purchase pension plan, a specified amount of money is contributed regularly for you. This money is placed in an investment account in your name. At retirement, these contributions - plus interest - are used to purchase a pension. You will not know the amount of pension you will receive until you retire.

Some defined contribution plans permit employees to make their own investment choices, while others provide that the employer or a board of trustees is responsible for all investment decisions.

Ultimately, the size of your pension depends on the amount of the contributions made by, or on behalf of you. It will also vary due to the return on the investment of those contributions. Annuity rates (i.e., long-term interest rates) at the time of retirement also may be a factor.

The traditional form of pension is the life annuity. Typically with a life annuity, your locked-in pension money is paid to a life insurance company that guarantees the payment of a fixed amount for your lifetime. Pension legislation has introduced the following alternatives to the life annuity:

- A Registered Retirement Income Fund (RRIF) will allow you to determine your level of income, as well as manage your pension capital to take advantage of continued capital growth from investment earnings, and to have more flexibility for tax and income planning purposes.

- A Variable Benefit, which is similar in nature to the above RRIF may be offered by a defined contribution plan. Check with the administrator of your plan to see if this is a retirement option under your plan.

Eligibility for Plan Membership

An employer may establish a pension plan for all of its employees or just for certain classes of employees. A class of employees includes the following:

- salaried employees
- hourly employees
- unionized employees
- non-unionized employees
- supervisory employees
- management employees
- executive employees
- corporate officers
- significant shareholders

A class cannot be made up of a specific or named individual. If the employer wants to provide one particular person with pension benefits, a separate single-member plan (often called an Individual Pension Plan or IPP) may be established.

The Pension Benefits Act does not make membership mandatory. However, pension plan membership is often compulsory, as a requirement of employment. If the plan is mandatory, employees cannot choose whether or not to be a member of the plan.

The Act sets out the criteria under which employees of a class covered by a plan become eligible to join the plan. If you are a full-time employee, you are eligible to join your employer's pension plan after 24 months of continuous service.

If you are a part-time employee, you are eligible to join your employer's pension plan after 24 months of continuous service provided you meet one of the following requirements:

- 700 hours of work for the employer, or
- earnings of at least 35 per cent of the Year's Maximum Pensionable Earnings (YMPE),

in each of the two consecutive calendar years before joining the plan.

You may become eligible for membership earlier if the plan permits.

Contributions

Contributory vs Non-contributory Pension Plans

Pension plans are designed to be either contributory or non-contributory. When the employer and the member both contribute, it is called a contributory plan. When only the employer contributes, the plan is said to be non-contributory.

In the case of a defined contribution plan, interest must be credited to employer and member contributions. The rate of interest is the gross rate of return earned by the pension fund less any administrative expenses that are required to be paid out of the pension fund.

In the case of a defined benefit plan, interest must be credited to member contributions. The rate of interest is either the rate of return on the pension fund as described in the previous paragraph or the average of five-year personal fixed term chartered bank deposit rates. Employer contributions to a defined benefit plan are used to fund all benefits payable from the plan and are not credited to individual plan members.

Employer and member contributions must be held separate and apart from the assets of the employer, usually by a trust or insurance company. In this way, pensions are protected should the business fail.

Funding of Defined Benefit Plans

Your employer is obligated to set funds aside regularly to pay for the pension that you and other members will receive in retirement. An actuary estimates the cost by making certain assumptions about future salary levels, investment returns, when members will retire, when they will die, etc.

The standards contained in *The Pension Benefits Act, 1992* establish a minimum amount that must be contributed to a plan to ensure its solvency. The Superintendent of Pensions ensures compliance by requiring the periodic filing of documents such as annual information returns and actuarial valuations.

Pension legislation further protects benefits by setting standards that must be followed in the investment of pension funds. For example, to ensure diversification, no more than 10 per cent of a pension fund can be invested in the securities of any single company. Special rules also apply to particular types of investments like real estate.

The 50 Per Cent Rule

The 50 per cent rule applies to you if you are a member of a contributory defined benefit pension plan and you are entitled to a pension. Saskatchewan's legislation requires that an employer pay at least one-half of the commuted value of your pension. The commuted value of your pension is determined, and the 50 per cent rule applied, if you terminate membership, die prior to retirement, or retire or if your plan is terminated.

It is important to note that the 50 per cent rule does not mean your employer must contribute the same amount as you into the pension fund. The 50 per cent rule also does not mean that you are entitled to a pension benefit which is worth twice as much as you have contributed. Rather, the 50 per cent rule allows you to receive a refund of any contributions that you have made which are in excess of half of the value of your pension.

Assume, for example, that on termination of membership from your plan you are vested (in other words, you qualify to receive a pension). On termination, the administrator of the plan calculates the commuted value of your defined benefit pension to be $100,000. According to the 50 per cent rule, you should have contributed no more than half this amount, that is $50,000. However, your contributions, plus interest, total $60,000, that is $10,000 more than 50 per cent of the commuted value. You receive a refund of $10,000 in cash.

You also may be able to transfer the $10,000 to an RRSP, to another pension plan, or to an insurance company to buy a deferred life annuity or you may be able to use the money to increase the amount of pension payable from your pension plan. Check with your plan administrator.

Vesting and Locking-in of Pension Benefits

Vesting

Vesting means that you are unconditionally entitled to receive the pension you have earned under the pension plan, whether that benefit is payable now or sometime in the future.

Saskatchewan legislation specifies the maximum period of time that members must work before becoming vested. However, some plan sponsors allow members to vest earlier than required by legislation.

For pensions earned prior to January 1, 1994, you are vested if your age plus continuous service or membership with the plan totals 45 years or more, with a minimum of 1 year of continuous service or membership. Pensions earned after January 1, 1994 are vested when you complete two years of continuous employment. It is important to note that you must satisfy the vesting rule at the date of your termination of membership.

Let us suppose, for instance, that you became a member of a plan in June 1989, you terminated membership in May 1996 and you are age 33 at that date. Your entitlement to benefits earned from June 1985 to December 31, 1993 would be determined by the "rule of 45". Since your age together with service totals less than 45 years, those entitlements are not vested with you. However, pension entitlements earned on and after January 1, 1994 are vested because you have been employed for more than two years.

You also are vested, regardless of the amount of your service or membership, upon reaching the plan's normal retirement date or on the termination of the plan.

If you leave a pension plan before becoming vested you forfeit your right to a pension benefit or any associated contributions made by your employer. However, you would be entitled to a refund of your own contributions (if any), plus interest.

Locking-in

Once pension benefits become vested in accordance with the "rule of 45" or "two years employment rule", they also are locked-in. If pension money is locked-in, funds cannot be taken out of the pension plan as a lump sum cash payment. Locked-in money can only be used to provide you and your spouse with retirement income.

If you are a vested member of a pension plan, you may have the option of transferring money from the plan. The portability options are described in a section to follow. Nevertheless, the pension money remains locked-in.

No one has the authority to grant an exception to the locking-in rules regardless of the circumstances in which you might find yourself. The legislation does not provide a release of pension money to alleviate financial hardship. However, the legislation does allow a payment of cash in lieu of a pension under the following circumstances:

- Sometimes a member will have only a small vested benefit in the plan when the member terminates employment. The legislation allows the plan to pay a member a pension entitlement in cash if the annual pension payable at retirement is less than 4 per cent of the YMPE or if the commuted value of the benefit is less than 20 per cent of the YMPE.
- A pension plan may provide a lump sum payment where you have a medical condition that is likely to shorten considerably your life expectancy.
- The pre-retirement death benefit may be paid as a lump sum to the surviving spouse of a member or former member.
- A plan is permitted to contain a provision that allows a refund of up to 50% of the contributions that you made up to December 31, 1993, plus interest. A plan is not required to offer a partial refund of member contributions and cannot do so with respect to contributions made after December 31, 1993.
- A refund can be made of excess member contributions. The “50% rule” was described in the Contributions section.
- The Act permits the attachment of pension funds by the Maintenance Enforcement Office of Saskatchewan Justice as a means of enforcing court-ordered maintenance payments.
- The *Income Tax Act* places limits on the amount of contributions to and benefits payable from pension plans. To avoid conflict, *The Pension Benefits Act* unlocks any amounts that are in excess of the *Income Tax Act* limits.

For further details, please refer to our bulletin “Unlocking Pension Money”.

Leaving a Job & Transfer Rights

Under certain circumstances you may be able to transfer pension monies from your employer's plan on the termination of your employment. Legislation requires pension plans to provide you with the right to transfer pension monies if:

- you are vested,
- you terminate employment before becoming eligible to receive a pension, and
- the termination occurred on and after January 1, 1993.

You may transfer the commuted value of your pension benefits to:

- another pension plan willing to accept the funds;
- a locked-in retirement account or LIRA (formerly referred to as a locked-in RRSP); or
- an insurance company to purchase a deferred life annuity.

Your funds may be left in your employer's pension plan to provide a deferred pension.

If you are eligible for a pension or if you terminated membership prior to January 1, 1993, then you do not have the right to portability unless your plan specifically provides for it. The Act would not prohibit portability from being offered.

For some defined benefit plans, there may not currently be enough money in the pension fund to pay the commuted value of your pension. In this case, you may not be entitled to transfer the full amount. However, the balance of the commuted value of your pension must be transferred with five years of the initial transfer.

Within 90 days after the termination of membership, the plan administrator must provide you with a termination statement. The termination statement must indicate the amount of benefits payable from the plan, the options you have available with respect to the benefits, and the deadlines you have for choosing an option.

After you have decided to transfer money from the plan and have provided the administrator with all the necessary documentation, the administrator has 60 days to transfer the money.

Retirement Age

When you reach the normal retirement date you are eligible to receive an unreduced pension. This date must be specified in the plan documents.

However, you may choose to retire at any time you are within ten years of the normal retirement date. So, for instance, if your plan has as a normal retirement date, the date a member reaches age 65 years, then you have the right to retire and begin to receive a pension at any time after reaching age 55.

By selecting an early retirement option you may reduce the amount of pension you will receive. The amount of the reduction, if any, will depend on the terms of your plan.

Working Beyond Retirement Age

You may choose to postpone retirement if your employer permits you to do so. If you are not receiving a pension, then your plan will either:

- allow you to continue to be a member on the same basis as applied before you reached the normal retirement date, or
- not allow you to continue to participate in the plan, but will increase your pension when it is payable to account for the period of time during which the pension was not paid.

If you are re-employed after you have started to receive your pension, then your plan will either:

- continue to pay your pension, but not allow you to become a member of the plan again, or
- suspend payment of the pension and will require you to join the plan and accrue further benefits.

Survivor Benefits

Your Spouse Is Protected When You Retire

When you retire, your pension must be offered in a "joint and survivor" form. This option entitles your surviving spouse to a lifetime pension of at least 60 per cent of the monthly pension paid to you. Because of the joint and survivor arrangement, the amount of pension payable to you at retirement may be reduced to ensure that continuing payments can be made throughout your lifetime and also your spouse's lifetime.

You and your spouse may choose an alternative to a 60 per cent joint and survivor pension only if your spouse signs a waiver. The waiver must be signed in the presence of a witness and outside of your presence. As well, it must be signed within 90 days of the commencement of your pension to be valid. Please ask your plan administrator for the proper waiver form.

Your spouse should obtain independent legal advice before waiving the right to a "joint and survivor" pension benefit.

Consider the following example:

You and your spouse are reviewing your retirement option statement and are faced with selecting one of the following options:

- a single life annuity with no guarantee period that will pay you $1,000 per month.
- a single life annuity with a guarantee period of 10 years that will pay you $930 per month. If you die within 10 years after retirement, your beneficiary will receive the same monthly pension, $930, for the remainder of the 10 year period.
- a 60 per cent joint and survivor annuity that will pay you $850 per month during your lifetime, and then $510 per month to your spouse, on your death, for the remainder of your spouse's lifetime.

As you and your spouse work through the options, you see that the single life annuity provides the largest monthly pension as long as you are alive, but offers no continuing income to your spouse if your spouse survives you.

The single life annuity with a guaranteed 10 years is payable to you for the duration of your life, and if you live more than 10 years after retirement, it will stop at the time of your death. If you die before the 10 years expire, the pension is payable to your spouse only for the remainder of the 10 year guaranteed term.

The joint and survivor option provides the smallest monthly payment to you but is payable throughout your life. Upon your death a reduced amount is payable to your spouse for your spouse's lifetime.

If you and your spouse select the first or second option, you spouse must sign the waiver form.

Your Spouse Is Protected If You Die Before Retirement

When plan administrators receive notification of a member's death, the beneficiary is provided with an option statement setting out the details of the deceased member's pension benefit, and the options available to the beneficiary.

Your spouse at the time of death must be your beneficiary. You will find a definition of "spouse" in the glossary. If you are not survived by a spouse, then benefits are payable to your designated beneficiary or estate.

Benefits paid to your spouse may be paid in the form of a pension payable either immediately or on a deferred basis, depending on the plan's rules. Your spouse may also elect to receive the survivor benefit as a lump sum payment or may transfer the commuted value of the survivor benefit to a portability vehicle provided under subsection 32(2) of *The Pension Benefits Act, 1992*. The amount of the survivor benefit is described below.

Benefits payable to your designated beneficiary or estate are paid as a lump sum.

Amount of Survivor Benefit

If you die prior to being eligible to receive a pension, then your spouse receives a survivor benefit which is equal to the commuted value of your accrued pension.

If you die after becoming eligible to receive a pension, then your spouse receives a pension as if you had retired on the date you died, in other words, 60 per cent of the pension that would have been paid to you.

Your Spouse May Waive Entitlement

Your spouse may waive entitlement to the pre-retirement survivor benefit by signing a prescribed waiver. The waiver must be signed in the presence of a witness and outside of your presence. As well, it must be signed and delivered to the plan administrator prior to your date of death to be valid. Please ask your plan administrator for the proper waiver form.

The waiver may be revoked by your spouse if a written and signed notice of revocation is delivered to the plan administrator prior to your date of death. There is no prescribed form for this purpose. A letter signed by your spouse should be sufficient.

LIRA's, RRIF's and Variable Benefits

Locked-in Retirement Account (LIRA)

A LIRA is essentially an investment account to hold money transferred out of a pension plan. The rules found in the *Income Tax Act* with respect to an RRSP apply to your LIRA, except that you cannot withdraw funds from a LIRA. A LIRA, therefore, may be better known as a locked-in RRSP.

Because it is an RRSP, you must purchase a life annuity or transfer money to a RRIF by the end of the calendar year in which you reach age 69. You also must follow the rules for investing an RRSP found in the *Income Tax Act* when investing your LIRA.

Registered Retirement Income Fund (RRIF)

You must be eligible to commence your pension to transfer money to a RRIF. If you are transferring money directly from a pension plan, the earliest age at which your pension can commence is established by the rules of the plan. You may transfer money from a LIRA at the earliest of age 55 or the early retirement age established by the plan where the money originated. Your spouse must sign a consent form for you to transfer money to a RRIF.

There is no limit on the amount of money that you may withdraw from a RRIF.

A RRIF must meet the requirements of the *Income Tax Act*. A RRIF permits you to receive taxable income while you retain control of investments and investment earnings are tax sheltered. One of the most important rules for a RRIF is that you must be paid income each year. The *Income Tax Act* sets the minimum amount of income that must be withdrawn. The minimum increases with age.

A RRIF must also meet certain requirements of *The Pension Benefits Act*. A spousal consent form must be signed before assets may be transferred to a RRIF, and you must designate your spouse as beneficiary of your RRIF unless your spouse signs a waiver of beneficiary status form. As well, your RRIF is subject to division in the event of the breakdown of a spousal relationship and may be attached for the purposes of enforcing an order for maintenance support.

Variable Benefits

A defined contribution plan may offer a Variable Benefit to you at retirement which is similar in nature to a RRIF. You must be eligible to retire under the terms of your plan in order to establish a Variable Benefit Account. Your spouse must sign a consent form and must waive entitlement to the 60% post-retirement benefit provided under the Act for you to transfer money to a Variable Benefit Account.

There is no limit on the amount of money that you may withdraw from a Variable Benefit Account.

A Variable Benefit must meet the requirements of the *Income Tax Act*. A Variable Benefit permits you to receive taxable income while you retain control of investments and investment earnings are tax sheltered. The *Income Tax Regulations* set a minimum withdrawal schedule that must begin at age 70. The minimum increases with age.

A Variable Benefit must also meet certain requirements of *The Pension Benefits Act*. A spousal consent form and a waiver of the post-retirement survivor benefit form must be signed before assets may be transferred to a Variable Benefit Account. You must designate your spouse as beneficiary of your Variable Benefit Account unless your spouse signs a waiver of beneficiary status form. As well, your Variable Benefit Account is subject to division in the event of the breakdown of a spousal relationship and may be attached for the purposes of enforcing an order for maintenance support.

Plan Administration

The administrator is the person responsible for the pension plan. Frequently, the administrator is the employer who established the plan. However, the administrator also may be a board of trustees or similar body.

The administrator must ensure that the pension plan and fund are administered in accordance with the law and the provisions of the plan. The administrator sets overall direction for the plan. Therefore, even where the administrator delegates the management of the plan to professionals, the administrator retains responsibility for supervising their work and ensuring that the desired results are achieved. Among other things, the administrator is responsible for:

- filing documents with the Pensions Division including the plan text, amendments to the plan, actuarial valuations, and annual information returns
- providing information to plan members
- responding to member questions about the plan

The administrator stands in a fiduciary relationship to plan members, retirees and other persons entitled to benefits under the plan. The administrator must act in good faith and in the best interests of plan members.

Information Provided to Members

Pension plan administrators are required to provide you with information about your pension plan and benefit entitlements.

Each year, within six months following the plan's year end, you must receive an annual statement containing current information about your benefit entitlement. This statement records such information as accrued benefits, annual and accumulated contributions made to the pension fund, your normal retirement date under the plan and the name of your designated beneficiary.

A statement also is required on the termination of membership, on death and on retirement.

As well, administrators are required to give you a written explanation of the provisions of the plan, and an explanation of any amendments to the plan that may affect your pension entitlement. You may examine certain documents which are important to the administration of your plan such as annual information returns, actuarial valuations, statements of investment policy and procedures, trust deeds or agreements and insurance contracts.

If questions arise, you should contact your plan administrator for assistance.

Know the Facts

It is important for you to have all the facts about your pension plan so that you can make informed financial decisions. Here are some sample questions or issues you may want to address.

Am I eligible to join the pension plan?
Do I have to join the plan?
What is the name of the pension plan?
Who administers the plan?
What is the registration number of the plan and where is it registered?
How long do I have to work before I am able to join the plan?
Am I allowed to join the pension plan if I work part-time?
Are there any brochures, booklets, or videos about the plan?
What type of plan do I belong to?
How much do I have to contribute?
Am I allowed to contribute more, if I want to?
How much does my employer contribute?
When do I receive my annual pension statement?
When will my pension be vested?
What happens if I leave the company before I retire?
What happens if I die before I retire?
What happens if I die after I retire?
Will my pension be affected if my spouse and I separate or divorce?
Is it possible for me to unlock any of my pension benefits?
What is the normal retirement date under the plan?
What happens to my pension if I continue to work after my retirement date?
What happens if I become disabled before I retire?
What happens if I become terminally ill?
At what age can I retire early?
Will my pension be reduced if I retire early?
How is my pension calculated?
Is my pension indexed to inflation?
Will my pension be reduced when I receive benefits from the Canada Pension Plan?
How do I name or change a beneficiary?
Where can I view the pension plan documents?
Will I be notified if the plan is amended?
Does the company offer any sessions on retirement financial planning?
What happens if my employer's business gets sold?
What happens if my employer goes out of business?
Can I select the investments for my pension fund?
Do I have a say in how the plan is administered?
What is the financial position of the plan?

GLOSSARY OF PENSION TERMS

ACCRUED PENSION - amount of pension credited to a plan member according to service, earnings, etc., up to a given date.

ACTUARY - a professional in the pension and insurance fields responsible for calculating risks and premiums. In Canada, full professional recognition requires membership in the Canadian Institute of Actuaries.

ADDITIONAL VOLUNTARY CONTRIBUTIONS - contributions to a plan made voluntarily by an employee in addition to those contributions required to be made to attain a pension. Extra benefits may be purchased by additional contributions but no additional cost is borne by the employer. Additional voluntary contributions are not locked-in.

AD HOC ADJUSTMENT - amount added to a pension after retirement or termination to compensate for increases in the cost of living on an irregular basis and not as a result of a prior commitment or contract.

ADMINISTRATOR - the person or persons who administer the pension plan, i.e., who arrange for pension payments, funding of the plan, etc. For most plans, the employer is responsible for administration (although the employer may hire a third party to administer the plan on its behalf). Some plans are administered by a board of trustees or similar body.

ANCILLARY BENEFITS - benefits in addition to regular pension benefits, such as bridging benefits and enriched early retirement benefits.

ANNUITY - in pension terminology, periodic payments (usually monthly) provided by the terms of a contract for the lifetime of an individual (the annuitant) or the individual and his or her designated beneficiary. An annuity may be a fixed or varying amount, and may continue to be paid for a period after the annuitant's death.

BENEFICIARY - a person who on the death of a plan member or former member, may become entitled to a benefit under the plan.

BENEFIT - generally, any form of payment to which a person may become entitled under the terms of a plan, but often refers specifically to the pension normally provided by the plan formula.

BEST FIVE-YEAR AVERAGE - a benefit formula that determines the amount of a member's pension by applying the member's average earnings during the five years when earnings were highest.

BRIDGING BENEFITS - a temporary benefit provided to members who retire prior to the age when CPP benefits are normally payable (age 65) in order to supplement pension income until the CPP benefits are payable.

CAREER AVERAGE PLAN - a defined benefit plan that applies the unit of benefit to earnings of the member in each year of service, and not to the final or final average earnings.

COMMUTED VALUE - the amount of a lump sum payment payable today estimated to be equal in value to a future series of payments.

CONTINUOUS SERVICE OR MEMBERSHIP OR EMPLOYMENT - period during which an employee is continuously employed by the same employer or continuously participates in his or her employer's pension plan, including periods of temporary absence or suspension or periods of layoff. To be distinguished from credited service.

CONTRIBUTORY PLAN - a pension plan which requires the employees to make contributions by payroll deduction in order to qualify for benefits under the plan.

CREDITED SERVICE - length of service used in the plan formula to calculate a defined benefit.

DEFERRED MEMBERS - terminated employees who are eligible for a deferred vested pension. Considered by legislation to be former members.

DEFERRED VESTED PENSION - a specified pension determined at the time of termination of employment or termination of a plan but not payable until some later date.

DEFINED BENEFIT PLAN - a pension plan that defines the pension to be provided (based on service, average earnings, etc.) but not the total contributions. If the plan is contributory, the rate of employee contributions may be specified, with the employer paying the balance of the cost. To be distinguished from a defined contribution plan.

DEFINED CONTRIBUTION PLAN - a plan under which the amount of the employer contribution per plan member and, where applicable, the amount of the employee contribution is specified in advance and the benefits to be received by the pensioner is calculated at the date of retirement based on the accumulated contributions and the return on the investment of the contributions.

DIVISION OF PENSION CREDITS - also known as "credit splitting", a provision in a pension plan or pension legislation whereby one spouse on spousal relationship breakdown, may obtain a share of pension credits earned by the other partner during the spousal relationship.

ELIGIBILITY REQUIREMENT - a condition such as length of service that must be met before an employee is permitted or required to join a pension plan. Term may refer to the eligibility for certain benefits.

EMPLOYEE - means an individual, employed to do work or to provide a service, who is in receipt of or entitled to remuneration for the work or service.

EMPLOYER - refers to the person or organization from whom an employee receives remuneration, and includes any or all of the employers that are required to contribute to a specified multi-employer pension plan.

ENRICHED EARLY RETIREMENT BENEFITS - a pension paid on retirement prior to the normal retirement date, which is not reduced to the extent it should be to fully account for the longer period of time over which the pension is likely to be paid.

FINAL PAY PLAN - a term commonly used for a pension plan in which benefits are based on earnings in a member's last years of service.

FLAT BENEFIT PLAN - a defined benefit plan that specifies a dollar amount of pension to be credited for each year of service.

FORMER MEMBER - means a person whose membership in a plan has terminated and who retains a present or future entitlement to a benefit pursuant to a plan. A pensioner would be considered a former member, as would a person who is entitled to a deferred vested pension. However, a person who transferred pension money to a Locked-in Retirement Account is not a former member because he or she no longer retains an entitlement under the plan.

FULLY FUNDED - a term describing a plan which, at a given time, has sufficient assets to provide for all accrued benefits.

FUNDING - systematic monthly payments into a pension fund which, with investment earnings on these funds, are intended to provide for benefits as they become payable.

GUARANTEED ANNUITY - an annuity which will be paid for the lifetime of a person or for a certain period whichever is longer, but in any event for a minimum period, e.g., if an annuitant with a five year guarantee dies after three years, payment will be continued to a beneficiary or the estate for two years.

INDEXING - a provision in a pension plan calling for periodic adjustments to benefits (usually after retirement) according to a formula based on a recognized index of price or wage levels such as the Consumer Price Index.

INVESTMENT RETURN - earnings of a pension fund including interest, dividends, and capital gains and losses.

JOINT AND SURVIVOR PENSION OR ANNUITY - an annuity payable until the death of the retired employee, and continuing thereafter to the surviving spouse until that person's death. Required to be provided as an option at time of retirement.

LOCKING IN - legislative requirement that pension contributions cannot be withdrawn or otherwise forfeited on termination of employment if the employee is vested.

LOCKED-IN RRSP - see Locked-in Retirement Account

LOCKED-IN RETIREMENT ACCOUNT (LIRA) - an RRSP upon which certain contractual conditions have been placed. The key conditions include:

- money must be locked-in and must be used to provide a pension;
- non-assignable and exempt from seizure;
- pension payable at age 55 or an earlier date if permitted by the pension plan from which the money was transferred;

MEMBER - an employee on whose behalf an employer is required to make contributions to a pension plan and who has not terminated his or her membership or commenced his or her pension.

MONEY PURCHASE PLAN - see Defined Contribution Plan.

NEGOTIATED COST DEFINED BENEFIT PLAN - a defined benefit plan in which employer contributions are fixed (usually by negotiations) and benefits are not guaranteed.

NON-CONTRIBUTORY PLAN - a pension plan in which all required contributions are made by the employer.

NORMAL RETIREMENT DATE - the date at which the member becomes entitled to retirement benefits without reduction or increase.

PENSION - generally any periodic payment payable for the lifetime of a person who has become entitled to such a benefit pursuant to the terms of a pension plan.

PENSION BENEFITS ACT, 1992 - Saskatchewan's legislation regulating employment pension plans.

PENSION PLAN - a plan, scheme or arrangement organized and administered to provide pensions for members and former members pursuant to which an employer is required to make contributions.

PLAN SPONSOR - refers to the employer sponsoring the pension plan for employees.

PORTABILITY - options available to certain members on termination of employment.

PRESCRIBED RRSP - see Locked-in Retirement Account. The term "prescribed" means the details surrounding the RRSP are provided in The Pension Benefits Regulations, 1993.

REGISTERED RETIREMENT INCOME FUND (RRIF) - a prescribed retirement arrangement that can be established with funds locked-in by pension legislation. The key characteristics of the RRIF include:

- the contract must be registered as a retirement income fund pursuant to the *Income Tax Act*;
- a spousal consent form must be signed before assets may be transferred to a RRIF;
- the contract must comply with the requirements of Section 29.1 of *The Pension Benefits Regulations, 1993;*
- the owner of the contract must be paid an income each year (except for the first year of the contract);
- the owner determines the amount of income to be paid each year at the beginning of the year, subject to the minimum withdrawal rules under the *Income Tax Act*;
- at any time the owner of the contract may purchase a life annuity with money in the contract, but the owner is never required to purchase an annuity;
- the owner determines how the balance in the RRIF is to be invested.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP) - a personal retirement savings plan as defined by the Income Tax Act.

RETIREMENT - withdrawal from the active work force because of age; may also be used in the sense of permanent withdrawal from the labour force for any reason, including disability.

RETIREMENT INCOME - income from pension and other sources to which a retired person is entitled. Term may include both private and public pension payments, income from personal savings, government income supplements and certain other sources of income.

SPECIFIED MULTI-EMPLOYER PENSION PLAN - a plan that is administered for employees of two or more employers and that is specified by the superintendent of pensions as a specified multi-employer plan. Generally refers to a plan in which the employee-employer relationship is not well defined. For example, in some construction trades, workers are employed for a particular job as opposed to being hired by a particular employer on an indefinite basis.

SPOUSE - refers to:

(i) a person who is married to a member or former member; or

(ii) if a member or former member is not married, a person with whom the member or former member is cohabiting as spouses at the relevant time and who has been cohabiting continuously with the member or former member as his or her spouse for at least one year prior to the relevant time.

The relevant time means "at the date of death" with respect to the pre-retirement survivor benefit and "at the date of retirement" with respect to the post-retirement survivor benefit.

SOLVENCY DEFICIENCY - refers to a shortfall in a plan's assets relative to its liabilities at a particular point in time assuming that the plan was terminated at that point.

SOLVENCY RATIO - the ratio of the market value of the plan's assets to its liabilities as measured on a plan termination basis.

SUBSIDIZED EARLY RETIREMENT BENEFITS - see enriched early retirement benefits.

SUPERINTENDENT OF PENSIONS - a person charged with the administration and enforcement of The Pension Benefits Act, 1992.

SURPLUS - if a pension plan's assets exceed the plan's liabilities, the difference is called a surplus.

SURVIVOR PENSION OR SURVIVOR BENEFIT - a monthly benefit payable under a pension plan to the surviving spouse of a deceased member or former member.

TERMINATION OF MEMBERSHIP OR EMPLOYMENT - severance of the employment relationship for any reason other than death and retirement.

TERMINATION OF PLAN - this occurs when a pension plan ceases to operate. All members are vested and entitled to receive a pension.

UNFUNDED LIABILITY - any amount by which the assets of a pension plan are less than its liabilities on a going concern basis.

VARIABLE BENEFIT – a retirement option that may be offered by a defined contribution pension plan that can be established with funds locked-in by pension legislation. The key characteristics of the Variable Benefit include:

- the pension plan must be registered as a defined contribution pension plan pursuant to the *Income Tax Act*;
- a spousal consent form must be signed before assets may be transferred to a Variable Benefit Account;
- a spousal waiver form must be signed before assets may be transferred to a Variable Benefit Account;
- the plan must comply with the requirements of Section 29.2 of *The Pension Benefits Regulations, 1993;*
- the pensioner determines the amount of income to be paid each year at the beginning of the year, subject to the minimum withdrawal rules under the *Income Tax Act*;
- at any time the pensioner may purchase a life annuity with money in the Variable Benefit Account, but the owner is never required to purchase an annuity;
- at any time, the pensioner may transfer the money in the Variable Benefit Account to a prescribed RRIF, another plan or to a LIRA (provided you are not yet 69 years of age); and
- the pensioner determines how the balance in the Variable Benefit Account is to be invested.

VESTED BENEFITS (VESTING) - benefits to which an employee has unconditional entitlement under the plan as a result of satisfying age or service requirements.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE) - term used in the Canada Pension Plan which refers to the earnings from employment on which CPP contributions and benefits are calculated. YMPE is changed each year according to a formula based on average wage levels. YMPE is published annually by Human Resources and Social Development Canada.

Division Publications

The Pensions Division has produced the following information bulletins:

- Conversion of a Defined Benefit Plan to a Defined Contribution Plan
- Division of Pension Benefits on Spousal Relationship Breakdown
- Enforcement of Maintenance Orders
- Funding Defined Benefits Pension Plans
- Highlights of *The Pension Benefits Amendment Regulations, 2002*
- Highlights of *The Pension Benefits Amendment Regulations, 2006*
- Jurisdiction
- Investment Regulations
- Retirement Options
- A Statistical Perspective on Pension Plans Registered in Saskatchewan
- Successor Employer Situations
- Termination of a Plan
- Understanding *The Pension Benefits Act, 1992* – a Guide for Members
- Unlocking Pension Money
- Update Concerning *The Pension Benefits Amendment Act, 2004*

For more information please contact:

Pensions Division
Saskatchewan Financial Services Commission
Suite 601, 1919 Saskatchewan Drive
REGINA SK S4P 4H2

Tel: (306) 787-7650
Fax: (306) 787-9006

Web site: www.sfsc.gov.sk.ca

Prepared: May 2006